

**Department of Water Resources
Charge Fund
Financial Statements
For the year ended June 30, 2021
(with comparative amounts for 2020)**



Department of Water Resources Charge Fund

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Independent Auditor's Report

To the Director of the State of California Department of Water Resources
Department of Water Resources Charge Fund
Sacramento, California

Report on the Financial Statements

We have audited the accompanying financial statements of the State of California Department of Water Resources Charge Fund (Fund), an enterprise fund of the State of California, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Fund, as of June 30, 2021, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Individual Fund Financial Statements

As disclosed in Note 2, the financial statements present only the Fund and do not purport to, and do not, present fairly the financial position of the State of California as of June 30, 2021, and the changes in its financial positions and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Report on Summarized Comparative Information

We have previously audited the Fund's 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 28, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 8, 2022, on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Sacramento, California

April 8, 2022

Department of Water Resources Charge Fund

Management Discussion and Analysis

June 30, 2021

(amounts in thousands unless otherwise stated)

This Management Discussion and Analysis (MD&A) is designed to assist the reader in focusing on significant financial issues and activities and to identify any significant changes in financial position of the Department of Water Resources Charge Fund (the Fund), which is administered by the California Department of Water Resources (DWR). Readers are encouraged to consider the information presented in the MD&A in conjunction with the financial statements that follow and are not related to DWR's other governmental and proprietary funds.

The financial statements include three required Statements, which provide different views of the Fund. The three required Statements are:

- The Statement of Net Position: includes all assets, liabilities and deferred outflows and inflows of resources as of the period ending date.
- The Statement of Revenues, Expenses and Charges in Net Position: presents all current year's revenues, expenses, and changes in net position.
- The Statement of Cash Flows: reports cash receipts, disbursements and the net change in cash resulting from four principal types of activities: operating, capital financing, non-capital financing and investing.

These statements provide current and long-term information about the Fund and its activities. These financial statements report information using accounting methods similar, although not identical, to those used by private sector companies. In order for the financial statements to be complete, they must be accompanied by a complete set of Notes. The Notes to Financial Statements provide disclosures which are required to conform to generally accepted accounting principles. The Fund is required to follow accounting standards promulgated by the Governmental Accounting Standards Board (GASB).

Financial Highlights

- Fiscal Year 2020-2021 is the second year of operations for the Fund. On July 12, 2019, Governor Newsom signed Assembly Bill 1054 (AB 1054) and companion Assembly Bill 111 (AB 111) into law. In addition, AB 1054 and the California Public Utilities Commission (CPUC), decision D. 19-010-056, established the Wildfire Non-Bypassable Charge (NBC) and imposed it on the ratepayers of California's three largest Investor Owned Utilities (IOUs) beginning October 1, 2020 and lasting through January 1, 2036.

The Fund received \$648,826 in NBCs during fiscal year 2021. The Fund transferred \$527,524 of the total NBCs collected to the California Earthquake Authority (CEA) during fiscal year ended June 30, 2021.

- The liabilities of the Fund increased \$130,075 during fiscal year 2021 as a result of the May and June 2021 NBC transfer made to the CEA.
- The Fund also repaid \$9,000 that was transferred from the General Fund to the Fund for start-up during fiscal year 2021.
- The Fund's total net position as of June 30, 2021, was \$114,062.

Purpose of Fund

AB 1054 was signed into law on July 12, 2019 as a result of the dramatic increase in the number and severity of wildfires in California. Approximately 25 percent of California's population live in over 25 million acres of high risk areas leaving them exposed to wildfires during intense dry seasons. The Fund, established in August 2019, is intended to provide the IOUs a source of funding to pay eligible wildfire claims.

**Department of Water Resources Charge Fund
Management Discussion and Analysis
June 30, 2021
(amounts in thousands unless otherwise stated)**

The Fund will assist in reducing the IOUs wildfire financial risks, by providing funding for a system to spread the exposure that the three IOUs: Pacific Gas & Electric Company, Southern California Edison, and San Diego Gas & Electric Company, have from wildfire liabilities and payment of wildfire-related claims against the IOUs. The Fund also has the authority to issue revenue bonds up to \$10 billion backed by NBCs imposed on the IOUs ratepayers.

AB 1054 directs the CPUC to order the IOUs to impose and collect NBC on ratepayers for deposit into the Fund in the same manner as the Electric Power Fund’s Bond Charge. The new NBC is to be equal to the average annual amount of Bond Charges for the Power Supply Revenue Bonds collected from January 1, 2013 through December 31, 2018, which is \$902 million. This annual amount will be collected through January 1, 2036.

AB 1054 also directed the CPUC to enter into a Rate Agreement with the DWR to establish NBCs. In a decision dated October 24, 2019, the CPUC adopted the Rate Agreement (the “Rate Agreement”). The Rate Agreement consists of a covenant that the CPUC shall calculate, revise and impose, from time to time, NBCs sufficient to fund at all times the \$902.4 million annual Revenue Requirement, which the covenant shall have the force and effect of a “irrevocable financing order” under Section 842(d) of the California Public Utilities Code.

CONDENSED STATEMENT OF NET POSITION

The Fund’s assets, liabilities and net position as of June 30 are summarized as follows:

	<u>2021</u>	<u>2020</u>
Assets		
Current assets	\$ 253,956	\$ 7,704
Liabilities		
Current liabilities	139,894	9,819
Net Position		
Unrestricted	<u>\$ 114,062</u>	<u>\$ (2,115)</u>

Current Assets

Restricted Cash

General Cash increased \$3,570 during the fiscal year 2021 primarily due to the collection of NBCs starting in October 2020.

The Fund combined the Administrative Account and Operating Account into one account and named it the Administrative and Operating Cost Account. The balance of this account was \$3,755 at the end of fiscal year 2021.

The Fund created two new accounts named the Collection Account and the Wildfire Transfer Account. At the end of fiscal year 2021, the Collection Account ending balance was \$138,793 from collection of NBC’s from the IOUs. The increase in the Administrative Account, for fiscal year 2020, included restricted cash in the amount of \$4,683. The Operating Account’s restricted cash increased to \$3,021. The total for the two accounts was \$7,704.

**Department of Water Resources Charge Fund
Management Discussion and Analysis
June 30, 2021
(amounts in thousands unless otherwise stated)**

Accounts Receivable

The accounts receivable reflects NBCs collected by the IOUs from non-exempt ratepayers in the IOUs service area for the months of May and June 2021. The accounts receivable balance was \$107,742 at June 30, 2021.

The accounts receivable balance was \$0, at June 30, 2020, as the Fund had not started collecting the NBC.

Current Liabilities

The accounts payable balance increased \$138,641 in fiscal year 2021. The increase was primarily due to the Fund beginning to receive NBCs in October 2020. The balance is primarily comprised of NBCs required to be transferred to the CEA, after the DWR's administrative and operating expenses and any reserves are withheld, for the months of May and June 2021.

The Fund made a transfer to the General Fund in the amount of \$9,000 during fiscal year 2021. This transfer was made to replenish the General Fund loan the DWR received on October 8, 2019 to provide funding for administrative and operating costs needed during start-up. The interfund loan payable balance was \$0 at June 30, 2021.

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The Fund's activities for the years ended June 30 are summarized as follows:

	<u>2021</u>	<u>2020</u>
Operating Expenses		
Total operating expenses	\$ 5,411	\$ 2,115
Non Operating Revenues and Expenses		
Total non operating revenues and expenses	<u>121,588</u>	<u>-</u>
Change in net position	116,177	(2,115)
Net position, beginning of year (deficit)	<u>(2,115)</u>	<u>-</u>
Net position, end of year (deficit)	<u>\$ 114,062</u>	<u>\$ (2,115)</u>

Operating Expenses

The operating expenses increased by \$3,296 at June 30, 2021. The increase was primarily due to more administrative activities taking place during fiscal year 2021.

Non Operating Revenues and Expenses

The Fund started collecting NBCs in October 2020 in accordance with AB 1054. The Fund collected a total of \$648,826 during fiscal year 2021.

The Fund earned \$302 in interest income from the Pooled Money Investment Account (PMIA) during fiscal year 2021.

**Department of Water Resources Charge Fund
Management Discussion and Analysis
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The Fund transferred \$527,524 of NBCs to CEA during fiscal year 2021.

The increase in operating expenses includes administrative expenses related to the establishment and operation of the Fund. The administrative expenses consist of employees salaries and staff benefits, technology purchases, and various consultant fees.

Requests for Information

This financial report is designed to provide a general overview of the Fund's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Branch Manager, Enterprise Accounting Branch, 715 P Street, 6th Floor, Sacramento, CA 95814.

Department of Water Resources Charge Fund
Statement of Net Position
June 30, 2021 (with comparative amounts for 2020)
(amounts in thousands)

	2021	2020
Assets		
Current Assets:		
General Cash	\$ 3,570	\$ -
Administrative Cost Account	-	4,683
Operating Cost Account	-	3,021
Administrative And Operating Cost Account	138,793	-
Collection Account	3,755	-
Wildfire Transfer Account	1	-
Accounts receivable	107,742	-
Interest receivable	95	-
Total current assets	<u>253,956</u>	<u>7,704</u>
Total Assets	<u>\$ 253,956</u>	<u>\$ 7,704</u>
Liabilities and Net Position		
Current Liabilities:		
Accounts Payable	\$ 139,460	\$ 819
Accrued Leave Time	434	-
Interfund Loans Payable	-	9,000
Total Current Liabilities	<u>139,894</u>	<u>9,819</u>
Total Liabilities	139,894	
Net Position:		
Unrestricted (Deficit)	<u>114,062</u>	<u>(2,115)</u>
Total Liabilities and Net Position	<u>\$ 253,956</u>	<u>\$ 7,704</u>

Department of Water Resources Charge Fund
Statement of Revenues, Expenses and Changes in Net Position
For the year ended June 30, 2021 (with comparative amounts for 2020)
(amounts in thousands)

	2021	2020
Operating Expenses:		
Administrative and operating expenses	\$ 5,411	\$ 2,115
Total operating expenses	<u>5,411</u>	<u>2,115</u>
Non Operating Revenues (Expenses):		
Non-bypassable charges and operating transfers	\$ 648,826	\$ -
Interest income	302	-
Operating transfers	(16)	-
Non-bypassable charges and operating transfers - paid to CEA	<u>(527,524)</u>	<u>-</u>
Total Non Operating Revenues	121,588	-
Change In Net Position		
	116,177	(2,115)
Net position, beginning of year (deficit)	<u>(2,115)</u>	<u>-</u>
Net position, end of year (deficit)	<u>\$ 114,062</u>	<u>\$ (2,115)</u>

Department of Water Resources Charge Fund
Statement of Cash Flows
For the year ended June 30, 2021 (with comparative amounts for 2020)
(amounts in thousands)

	2021	2020
Cash Flows From Operating Activities:		
Payment to employees for services	\$ (1,941)	\$ (872)
Payment for other expenses	(3,525)	(424)
Net cash flows provided by (used for) operating activities	<u>(5,466)</u>	<u>(1,296)</u>
Cash Flows From Non-Capital Financing Activities:		
Collection of non-bypassable charges from IOUs	541,084	-
Payment of non-bypassable charges to CEA	(388,410)	-
Received interfund loan	-	9,000
Repayment of interfund loan	(9,000)	-
Net cash flows provided by (used for) non-capital financing activities	<u>143,674</u>	<u>9,000</u>
Cash Flows From Investing Activities:		
Interest received on investments	<u>207</u>	-
Net cash flows provided by (used for) investing activities	207	-
Changes in restricted cash and equivalents	138,415	7,704
Restricted cash and equivalents, beginning of period	<u>7,704</u>	-
Restricted cash and equivalents, end of period	<u>\$ 146,119</u>	<u>\$ 7,704</u>
Restricted cash and equivalents included in:		
Administrative and operating cost account	\$ 138,793	\$ 4,683
General cash	3,570	-
Wildfire transfer account	1	-
Operating cost account	-	3,021
Collection account	<u>3,755</u>	<u>-</u>
Restricted cash and equivalents, end of year	<u>\$ 146,119</u>	<u>\$ 7,704</u>
Reconciliation of income (loss) from operation to net cash used in operating activities:		
Income/loss from operations	\$ (5,411)	\$ (2,115)
Adjustments to reconcile income from operations to net cash used in operating activities:		
Increase/decrease in accounts payable for services	(489)	819
Increase in accrued leave time	434	-
	<u>\$ (5,466)</u>	<u>\$ (1,296)</u>

Department of Water Resources Charge Fund
Notes to Financial Statements
June 30, 2021
(amounts in thousands unless otherwise stated)

1. Reporting Entity

In response to the dramatic increase in the number and severity of California wildfires, coupled with the intense dry seasons that left approximately twenty-five percent of California's population living in over 25 million acres of high-risk areas, Governor Newsom convened a Strike Force in early calendar year 2019 to address potential solutions to this catastrophic and potentially growing risk.

As a result of the recommendations made by the Strike Force, the California Legislature began drafting legislation with the aim to reduce wildfire risks while also establishing a system to spread the exposure that Investor Owned Utilities (IOUs) have for liabilities from wildfires. These legislative efforts resulted in AB 1054 and a companion bill, AB 111, with AB 111 primarily covering the oversight and implementation of AB 1054.

These bills were signed into law on July 12, 2019. At that time, the California Earthquake Authority (CEA) was designated the Fund's interim administrator until the nine-member California Catastrophe Response Council (CCRC) could be formed and appoint an administrator.

AB 1054, among other things, created a new fund to facilitate payment of wildfire-related IOUs liabilities (the "Wildfire Fund"), and authorizes the Department of Water Resources (DWR) to issue revenue bonds to help capitalize the Wildfire Fund. The Wildfire Revenue Bonds cannot be issued until the Power Supply Revenue Bonds (PSRBs), issued pursuant to Section 80134 of the California Water Code, have either been legally defeased or paid in full at maturity. (The PSRBs were legally defeased on September 24, 2020.)

On April 23, 2020, the CCRC formally named the CEA as the Wildfire Fund Administrator. The CEA is a not-for-profit, privately-funded, publicly-managed organization. Assets in the CEA funds for residential earthquake insurance policyholders are segregated and separately managed/maintained from assets in the Wildfire Fund.

AB 1054 directed the California Public Utilities Commission (CPUC) to order the IOUs to impose and collect Wildfire Non-Bypassable Charge (NBCs) for deposit into the Fund in the same manner as the Bond Charge under the Electric Power Fund's PSRB Program. The new Wildfire NBCs are to be equal to the average annual amount of PSRB Bond Charges collected from January 1, 2013 through December 31, 2018, which is approximately \$902.4 million per year.

In addition, AB 1054 directed the CPUC to make a just and reasonable determination regarding the Wildfire NBCs at the onset of the program and through its duration. The CPUC, in Decision 19-10-056, effective on October 24, 2019, found the imposition of a Wildfire NBC to be just and reasonable and therefore approved the imposition and collection of the NBCs. This Decision also set \$902.4 million as the annual Revenue Requirement (as defined in the Rate Agreement) to be just and reasonable.

In addition, Decision 19-10-056 allowed the CPUC to adopt a Rate Agreement with DWR, in accordance with AB 1054 to establish the NBCs. The Rate Agreement contains a covenant that the CPUC shall calculate, revise and impose, from time to time, NBCs sufficient to fund at all times the \$902.4 million annual Revenue Requirement. This covenant shall have the full force and effect of a "irrevocable financing order" under Section 842(d) of the California Public Utilities Code. Any action required by an "irrevocable financing order" is binding upon the CPUC, and the CPUC shall have no authority to rescind, after or amend any revenue requirement thereunder.

Department of Water Resources Charge Fund
Notes to Financial Statements
June 30, 2021
(amounts in thousands unless otherwise stated)

2. Summary of Significant Accounting Policies

Basis of Presentation

The Department of Water Resources Charge Fund (Fund) is accounted for as an enterprise fund and is financed and operated in a manner similar to that of a private business enterprise. The Fund uses the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles, which considers the Fund a Regulated Operation under GASB Statement No. 62. The Fund is accounted for with a set of self-balancing accounts that comprise of assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, and expenses.

The financial statements of the Fund are intended to present the financial position, and the changes in financial position and cash flow, of only that portion of the business-type activities and major funds of the State of California that is attributable to the transactions of the Fund. They do not purport to, and do not present, the financial position of the State of California and the changes in its financial position and its cash flows in conformity with accounting principles generally accepted in the United States of America.

Current Year GASB Implementations:

GASB Statement No. 84

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement is effective for reporting periods beginning after December 15, 2019. The Fund determined that this statement had no impact on the Fund's financial statements.

GASB Statement No. 90

In September 2018, the GASB issued Statement No. 90, *Majority Equity Interests, An Amendment of GASB Statements No. 14 and No. 61*. The objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The Statement is effective for reporting periods beginning after December 15, 2019. The Fund determined that this statement had no impact on the Fund's financial statements.

DWR Charge Fund Sub-Accounts:

In the implementation of AB 1054, the State of California, DWR and the Treasurer of the State of California, as Trustee, established separate restricted cash accounts. The accounts and their purpose follow:

Collection Account: All NBC revenues collected from the ratepayers of participating IOUs will be initially deposited into this account.

Department of Water Resources Charge Fund
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Payment Account: DWR will allocate from the Bond Charge Collection Account the amounts necessary to pay the principal of, and premium if any, and interest on, all Wildfire Revenue Bonds as any bonds become due as well as for the repayment of loans made from SMIF to the Wildfire Fund.

Operating Cost Account: Any required payments will be made from the Fund's Operating Cost Account for contracts, agreements, and obligations entered into by the Fund. Wildfire NBCs servicing costs; costs of preparing and providing information and reports required under any financing document, the Rate Agreement and the Act (the Wildfire Prevention and Recovery Act of 2019, Division 26, commencing with Section 80500 of the California Water Code, along with the Rate Agreement between the DWR and the CPUC and Assembly Bill 1054 are collectively referred to as Act. Related audit, legal and consulting fees will also be made from this account.

Reserve Account: DWR will allocate, from the Collection Account, monies necessary to maintain adequate reserves in such amount as may be determined by DWR from, time to time, to be necessary or desirable.

Administrative Cost Account: Any required payments will be made from this account for related, reasonable administrative, general and overhead expenses; payments for employee salaries and benefits; costs of complying with arbitrage; and any restrictions and rebate requirements relating to the Wildfire Revenue Bonds under section 148 of the Internal Revenue Code of 1986, as amended.

During fiscal year 2021, the Fund decided to combine the Operating Cost Account and the Administrative Cost Account into one account named the Administrative and Operating Cost Account.

Wildfire Transfer Account: DWR will use this account to repay loans made from SMIF to the Wildfire Fund; repay loans made from the General Fund to the Wildfire Fund and transfer monies to the Wildfire Fund Administrator for credit to the Wildfire Fund.

Restricted Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, restricted cash and cash equivalents includes cash on hand and deposits in the SMIF (Surplus Money Investment Fund).

SMIF has an equity interest in the State of California PMIA. Generally, investments in the PMIA are available for withdrawal on demand. The PMIA cash and investments are recorded at amortized cost, which approximates fair value. The PMIA funds are on deposit with the State's Centralized Treasury System and are managed in compliance with the California Government Code, described in Note 5.

3. Liabilities

Accounts Payable

Accounts payable reflects one month's accrual for salaries and benefits of employees, legal and consulting fees and the May and June 2021 NBCs for transfer to the CEA. The accounts payable balance, as of June 30, 2021, was \$139,460.

4. Pass-through Interest Payments

On August 15, 2019, the State of California issued a loan in the amount of \$2 billion from the SMIF to the Wildfire Fund. The loan was disbursed directly to the Wildfire Fund and did not pass-through the Fund. Interest on the loan is repaid by the CEA on a quarterly basis. Section 8055 (b)(3) of the Water Code requires interest payments to the SMIF be made from the Wildfire Fund through the Fund. These interest payments do not represent revenues or expenses of the Fund and, accordingly, are not

Department of Water Resources Charge Fund
Notes to Financial Statements
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reflected on the Statement of Net Position or Statement of Revenues, Expenses and Changes in Net Position for the Fund.

The total amount of principal and interest payments received and disbursed to the SMIF, by the Fund, totaled \$490,000 and \$34,412 respectively for fiscal year 2021.

5. Restricted Cash and Investments

As of June 30, 2021 and 2020, the Fund had the following Cash and Investments:

<u>Cash and Investments</u>	<u>Maturity</u>		<u>2021</u>	<u>2020</u>
	<u>June 30, 2021</u>	<u>June 30, 2020</u>		
State of California Pooled Money				
Investment Account - Surplus Money				
Investment Fund	9.6 months avg.	-	\$ 142,549	\$ -
Cash			3,570	7,704
Total cash and cash equivalents			<u>146,119</u>	<u>7,704</u>
Reconciliation to Statement of Net Position:				
Cash			\$ 3,570	\$ -
Administrative cost account			-	4,683
Operating cost account				3,021
Administrative and operating cost account			3,755	-
Collection account			138,793	-
Wildfire transfer account			1	-
			<u>\$ 146,119</u>	<u>\$ 7,704</u>

As of June 30, 2021 and June 30, 2020, the Fund had \$3,570 and \$7,704, respectively, deposited with the State Treasury in a non-interest bearing pooled account.

Custodial Credit Risk: The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The State of California has a deposit policy for custodial credit risk that requires deposits held by financial institutions to be insured by federal depository insurance or secured by collateral held in the State's name.

Interest Rate Risk: Interest rate risk is the risk that the value of fixed income securities will decline because of changing interest rates. The prices of fixed income securities with a longer time to maturity, measured by effective maturity, tend to be more sensitive to changes in interest rates and; therefore, more volatile than those with shorter maturities. The State Treasurer's Office (STO) Investment Policy, PMIA, provides for spreading investments over various maturities to minimize the risk of portfolio depreciation due to a rise in interest rates. The STO Investment Policy limits investments to the following maximum maturities: U.S. Treasury securities, 5 years; federal agency securities, 5 years; banker's acceptances – domestic and foreign, 180 days; certificates of deposits, 5 years; commercial paper, 180 days; corporate bonds and notes, 5 years; repurchase agreements and reverse repurchase agreements, 1 year.

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Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The PMIA funds are on deposit with the State's Centralized Treasury System and are managed in compliance with the California Government Code, according to a statement of investment policy which sets forth permitted investment vehicles, liquidity parameters and maximum maturity of investments. These investments consist of U.S. government securities, securities of federally sponsored agencies, U.S. corporate bonds, interest bearing time deposits in California banks, prime-rated commercial paper, banker's acceptances, negotiable certificates of deposit, repurchase and reverse repurchase agreements. The PMIA policy limits the use of reverse repurchase agreements to no more than 10% of the PMIA and Commercial Paper to limits not to exceed 30% of the PMIA. The PMIA does not invest in leveraged products or inverse floating rate securities. The PMIA is not rated.

Concentration of Credit Risk: The SMIF concentration of credit risk is limited by spreading the investment mix over different investment types and issuers to minimize the impact any one industry, investment class, or institution can have on the SMIF portfolio.

Interest on deposits in the SMIF varies with the rate of return of the underlying portfolio and approximated 0.28% at June 30, 2021. For the year ended June 30, 2021, interest earned on the deposit in the SMIF was \$302.

Fair Market Value Measurement: The Fund categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; level 2 inputs are significant other observable inputs; level 3 inputs are significant unobservable inputs. Deposits and withdrawals in government investment pools, such as SMIF, are made on the basis of \$1 and not fair value. Accordingly, the Fund's proportionate share of these investments is uncategorized input not defined as Level 1, Level 2 or Level 3 input.

6. Commitments and Contingencies

Litigation and Regulatory Proceedings

Plaintiffs Alex Cannara and Gene A. Nelson in their First Amended Complaint filed December 6, 2019, (they originally filed a Complaint on July 19, 2019 one week after AB 1054 was enacted) seek to invalidate and block implementation of AB 1054, including the California Public Utilities Commission's decision to impose a Non-Bypassable Charge on ratepayers pursuant to statutory provisions of law, chaptered under AB 1054. Plaintiffs brought this action in the United States District Court, Northern District of California. The named defendants include Karla Nemeth, California Department of Water Resources Director, in her official capacity.

Following oral argument and supplemental briefing, on June 17, 2020, United States District Judge James Donato dismissed the case with prejudice for lack of jurisdiction under the Johnson Act and stated that Plaintiffs' constitutional claims are not dismissed on the merits and may be pursued as warranted in the California state courts. The Court found that the Johnson Act bars jurisdiction over this rate setting dispute and so did not reach the Eleventh Amendment or other grounds tender for dismissal. The Plaintiffs have not pursued their claims in state court, and the time frame for doing so has lapsed.

On June 18, 2020, Plaintiffs Appellants filed a notice of appeal to the Ninth Circuit Court of Appeal and on December 30, 2021, the Ninth Circuit issued a decision affirming the dismissal of the challenge to

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(amounts in thousands unless otherwise stated)

AB 1054. On January 13, 2022, the Appellants filed a Petition for Rehearing by the Ninth Circuit panel for rehearing for rehearing en banc.

Other Contingencies

The Fund is self-insured for most risks, including general liability and workers' compensation. Management believes the Fund's exposure to loss is immaterial and that any costs associated with such potential losses are recoverable from customers as part of the Fund's revenue requirement. No settlements have exceeded insurance coverage in the past year.



Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Director of the State of California Department of Water Resources
Department of Water Resources Charge Fund
Sacramento, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the State of California Department of Water Resources Charge Fund (Fund), an enterprise fund of the State of California, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated April 8, 2022. Our report contained an emphasis of matter paragraph noting that the financial statements present only the Fund and do not purport to and do not present fairly the financial position of the State of California as of June 30, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Sacramento, California

April 8, 2022